

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-07 IO-13 ISO-00 FEA-01 AGRE-00
CEA-01 CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-07
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 EPG-02
AID-05 SS-15 STR-04 ITC-01 TRSE-00 USIA-06 PRS-01
SP-02 OMB-01 GSA-02 /110 W
-----031129Z 107421 /16

R 030931Z MAR 77

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 3679

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY SINGAPORE

ALL EC CAPITALS

USMISSION GENEVA

USDEL MTN GENEVA

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E.O. 11652: N/A

TAGS: ETRD, UNCTAD, EPAP, EEC

SUBJECT: COMMISSION PROPOSAL FOR PREPARATION FOR UNCTAD NATURAL
RUBBER DISCUSSIONS

REF: (A) EC BRUSSELS 2756, (B) EC BRUSSELS 1960

1. SUMMARY: THE EC COMMISSION STAFF HAS SUBMITTED A PAPER
TO THE EC COUNCIL WORKING GROUP HANDLING UNCTAD DDRUBBER DIS-
CUSSIONS. THIS PAPER SUGGESTS EVENTUALLY ESTABLISHING AN
INTERNATIONAL RUBBER AGREEMENT IN WHICH PRODUCERS AND CON-
SUMERS WOULD SHARE THE BENEFITS AND COSTS. THE BUFFER STOCK
WOULD BE 250300,000 MTS AND PROVISIONS
WOULD BE ESTABLISHED TO CONTROL PRODUCTION AND EXPORTS.
COMMISSION OFFICIALS HAVE DISCUSSED THESE PROVISIONS WITH
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THE EUROPEAN TRADE AND MEMBER STATES. EXCEPT FOR FRG
RESERVATIONS CONCERNING OBLIGATORY FINANCIAL
CONTRIBUTIONS, THE NINE REPORTEDLY SUPPORT A RUBBER
AGREEMENT. THE TRADE ALSO FAVORS SUCH AN AGREEMENT,
EXCEPT FOR SOME BRITISH FIRMS. COMMISSION OFFICIALS
FORESEE NO DECISION TO ENTER INTO NEGOTIATIONS UNTIL
THE LATE FALL. END SUMMARY.

2. COMMISSION OFFICIALS TELL US THAT AN INTRA-SERVICE COMMISSION PAPER HAS BEEN SUBMITTED TO THE EC COUNCIL WORKING GROUP HANDLING THE UNCTAD NATURAL RUBBER DISCUSSIONS. THIS PAPER OUTLINES A PROPOSED POSITION FOR THE NEXT UNCTAD PREPCOM ON RUBBER. (THE MISSION HAS A COPY OF THIS PAPER, PLEASE PROTECT, WHICH WE ARE SENDING TO EUR/RPE - MCLEAN, EA/EP - GEBER, AND EB/ICD/ISM-HEWITT.) THIS PAPER DOES NOT SUGGEST TAKING A DEFINITIVE POSITION REGARDING THE ISSUE OF ENTERING INTO NEGOTIATIONS TO DRAW UP AN INTERNATIONAL RUBBER AGREEMENT (IRA). COMMISSION STAFF OFFICIALS INDICATE, HOWEVER, THAT THEY FORESEE A DECISION TO ENTER INTO NEGOTIATIONS BY THE LATE FALL OF THIS YEAR AFTER SEVERAL MORE UNCTAD PREPCOMS.

3. THE COMMISSION PAPER INDICATES IT WOULD BE DESIRABLE TO STABILIZE NATURAL RUBBER (NR) PRICES BECAUSE IT WOULD PROVIDE THE NECESSARY SECURITY TO ENABLE PRODUCERS TO MODERNIZE THEIR PLANTATIONS. SUCH MODERNIZATION WOULD HELP IMPROVE PRODUCTION BOTH QUALITATIVELY AND QUANTITATIVELY. THE PAPER FORESEES AN ANNUAL GROWTH RATE OF NR PRODUCTION OF 3 TO 5 PERCENT; THIS WOULD ENABLE NR PRODUCERS TO MAINTAIN ABOUT ONE-THIRD OF THE GLOBAL RUBBER MARKET. STABILIZATION OF NR PRICES WOULD ALSO PREVENT DISRUPTION OF EUROPEAN INDUSTRY AND TRADE.

4. THE COMMISSION SUGGESTS A BALANCED IRA IN WHICH LIMITED OFFICIAL USE

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PRODUCERS AND CONSUMERS WOULD SHARE THE BENEFITS, RIGHTS AND OBLIGATIONS OF AN INTERNATIONAL AGREEMENT. IT SUGGESTS THAT AN IRA RELYING SOLELY ON A BUFFER STOCK TO STABILIZE NR PRICES WOULD BE TOO EXPENSIVE BECAUSE SUCH A STOCK WOULD HAVE TO BE 500-600,000 MT. INSTEAD, IT IS SUGGESTED THAT A BUFFER STOCK OF 250-300,000 MT BE ESTABLISHED AND PROVISIONS BE INCLUDED FOR CONTROLLING PRODUCTION AND NR EXPORTS. THE PAPER FORESEES NO NEED FOR DEFENDING A NR FLOOR PRICE WITHIN THE NEXT 2 YEARS. THUS, THE FINANCING OF A STOCK COULD BE SPREAD OUT OVER SEVERAL YEARS.

5. THE COMMISSION SUGGESTS THAT SYNTHETIC AND NR PRODUCERS SHOULD EXCHANGE INFORMATION IN ORDER TO ALLOW FOR PREPARATION OF SUITABLE INVESTMENT PROGRAMS. IT ADDS THAT NR PRODUCERS ARE SERIOUSLY CONCERNED OVER POTENTIAL FUTURE COMPETITION FROM POLY-ISOPRENE PRODUCERS. THEY CONSEQUENTLY SEEK TO STABILIZE NR PRICES WELL BELOW THE COST OF PRODUCING POLY-ISOPRENE.

THE COMMISSION ALSO POINTS OUT THAT EXCESS NR PRODUCTION IS NOT LIKELY IN THE FORESEEABLE FUTURE. MALAYSIA LACKS THE MANPOWER TO SUBSTANTIALLY EXPAND ITS PRODUCTION AND INFRASTRUCTURE PROBLEMS WILL IMPEDE INDONESIAN AND THAILAND'S PRODUCTION.

6. THE COMMISSION SUGGESTS THAT THE EC ADOPT A POSITION FOR THE NEXT UNCTAD PREPCOM OF BEING OPEN MINDED AND GIVING THE IMPRESSION OF A WILLINGNESS TO MOVE AHEAD WITH DISCUSSIONS. IT ALSO SUGGESTS THAT THE EC SHOULD WORK CLOSELY WITH THE US AND ITS OTHER PARTNERS. THE PAPER ADDS THAT THE EC SHOULD ASSERT ITSELF IN THE ROLE OF CONCILIATOR AND MEDIATOR IN THE SEARCH FOR A SATISFACTORY SOLUTION FOR NR.

7. COMMENT: COMMISSION OFFICIALS WHO ARE HANDLING THE UNCTAD RUBBER NEGOTIATIONS BELIEVE THEY HAVE GENERAL LIMITED OFFICIAL USE

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SUPPORT FROM THE NINE FOR THE ABOVE TYPE OF APPROACH. THEY ARE PLANNING TO BIDE THEIR TIME AND NOT PRESS FOR A DECISION ON ENTERING INTO NEGOTIATIONS UNTIL THE LATE FALL. BY THIS TIME, IF UNCTAD PREPARATIONS GO AHEAD AS EXPECTED, THEY BELIEVE THE NINE WILL SUPPORT A DECISION TO ENTER INTO NEGOTIATIONS OF AN IRA. AT THIS TIME, HOWEVER, COMMISSION OFFICIALS SAY THAT THE FRG HAS RESERVATIONS RE AN IRA MAKING FINANCIAL CONTRIBUTIONS OBLIGATORY. SEVERAL UK FIRMS ALSO HAVE RESERVATIONS OVER THE IMPACT OF AN IRA ON THEIR TRADE POSITION. OTHERWISE, COMMISSION OFFICIALS REPORT GENERAL SUPPORT FOR NEGOTIATING AN IRA ONCE PREPARATIONS ARE COMPLETED. HINTON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: RUBBER, AGREEMENTS, PLANNING MEETINGS
Control Number: n/a
Copy: SINGLE
Sent Date: 03-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977ECBRU04425
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770154-0674
Format: TEL
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770394/aaaadfgr.tel
Line Count: 152
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 80f337be-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 EC BRUSSELS 2756, 77 EC BRUSSELS 1960
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 23-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3213112
Secure: OPEN
Status: NATIVE
Subject: COMMISSION PROPOSAL FOR PREPARATION FOR UNCTAD NATURAL RUBBER DISCUSSIONS
TAGS: ETRD, EPAP, UNCTAD, EEC
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/80f337be-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009